

NEW YORK ASSOCIATION OF PUBLIC POWER

Village of Freeport
Green Island Power Authority
Village of Greenport
Jamestown Board of Public Utilities
Town of Massena Electric Department
Oneida-Madison Electric Cooperative

Otsego Electric Cooperative
Village of Rockville Centre
Salamanca Board of Public Utilities
Village of Sherburne
City of Sherrill Power and Light
Steuben Rural Electric Cooperative

**STAKEHOLDER PANEL COMMENTS OF
NEW YORK ASSOCIATION OF PUBLIC POWER
AT
NORTHEAST JOINT BOARD MEETING
ON SECURITY CONSTRAINED ECONOMIC DISPATCH
FERC Docket No. AD05-13-000
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Thomas L. Rudebusch, Esq.
Duncan, Weinberg, Genzer & Pembroke, PC
1615 M Street, NW, Suite 800
Washington, DC 20036
202-467-6370

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Background:

- The New York Association of Public Power (“NYAPP”) has nine municipal electric utility members and three rural electric cooperative members, located across New York State. NYAPP’s members are also active members in the American Public Power Association and National Rural Electric Cooperative Association, as appropriate.
- NYAPP’s members are Load Serving Entities (“LSEs”), with a total peak load of approximately 450 MW. NYAPP’s members are Transmission Dependent Utilities (“TDUs”), and depend on transmission services administered by the New York Independent System Operator (“NYISO”) to serve their loads.
- The NYISO operates the New York Control Area using a bid-based Security Constrained Economic Dispatch (“SCED”) and a Security Constrained Unit Commitment (“SCUC”). The NYISO also administers co-optimized markets for energy, regulation and reserves using Locational Marginal Prices (“LMP”), and provides other services.
- NYAPP’s members have the goal of serving their communities reliably and economically. They rely on long-term bilateral contracts to meet their power supply requirements. The power and energy is supplied at cost under “preference power” arrangements more commonly found in other regions.

Comments:

- EPC Act 2005 defines “economic dispatch” to mean “the operation of generation facilities to produce energy at the lowest cost to reliably serve consumers, recognizing any operational limits of generation and transmission facilities.” (Section 1234(b)). As noted, NYAPP members strive for reliable service at the lowest cost. To emphasize reliability, the concept of “security-constrained” economic dispatch should be utilized.
- The US Department of Energy Report to Congress, “The Value of Economic Dispatch” (November 7, 2005), fails to adequately address the distinction between bid-based SCED and a cost-based SCED. Prior to the establishment of the NYISO in 1999, the New York Power Pool operated a cost-based SCED (and SCUC) at a tenth of the administrative cost. Of course, the Power Pool did not administer bid-based markets using LMP.
- The NYISO bid-based economic dispatch produces a single-market clearing price Day Ahead and Real Time. Recently, average monthly prices (not peaks) have increased at an alarming rate per MWh: \$80s in June, \$90s in July, \$110s in August, and \$120s in September, back to \$110s in October. The cause is said to

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be high gas and oil prices used in generators that set the LMP. But nuclear, hydro and coal generators are paid that same price, even though their fuel costs have not risen to the same extent. This is a central feature of current bid-based SCED, and one that should be addressed.

- By contrast, NYAPP members have cost-based bilateral contracts, with rates in the \$20s. It follows that the retail rates charged by NYAPP members are roughly 1/3 of the retail rates charged by other providers in New York.
- However, the cost-based contracts do not meet the full requirements of NYAPP members, and they are being forced into the market for the balance of their power supply. Here they have found that generators and other suppliers are not willing to enter into contracts that reflect their costs. Instead, sellers want prices that reflect the short-term market price. While it is said that a bid-based SCED produces production cost savings, those savings are not reflected in the prices charged to LSEs in the wholesale market, or to retail customers.
- In New York, regulators persuaded Transmission Owners to divest themselves of much of their generation. This had significant pro-competitive effects. Today, as non-transmission owning LSEs, NYAPP's members are investing in generation projects, including clean coal and small hydro facilities. This is the only way NYAPP members can capture the benefits of cost-based generation, since a bid-based SCED fails to produce the lowest cost outcome.
- Other by-products of a bid-based SCED include "uplift" in all of its forms. These are significant costs, necessary for reliability, but the level of these costs must be managed through the NYISO governance process. For this reason, NYAPP supported the NYISO in its development of the expensive and ever more sophisticated Real Time Commitment dispatch. The promise is that it will reduce uplift.
- NYAPP supports "seams" reduction, and does not believe further consolidation of the economic dispatch by integrating New York and New England is needed if the goal is reliable service at the lowest cost.